

Message Text

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ACTION EB-07

INFO OCT-01 ARA-06 ISO-00 AF-06 EUR-12 FEA-01 AGR-05

CEA-01 CIAE-00 COME-00 DODE-00 FRB-03 H-02 INR-07

INT-05 L-02 LAB-04 NSAE-00 NSC-05 PA-01 AID-05

CIEP-01 SS-15 STR-01 TAR-01 TRSE-00 USIA-06 PRS-01

SP-02 OMB-01 IO-10 (ISO) W
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R 151635Z MAR 75

FM AMEMBASSY MANAGUA
TO SECSTATE WASHDC 6481
INFO AMEMBASSY CARACAS
AMEMBASSY GUATEMALA
AMEMBASSY MEXICO
AMEMBASSY SAN JOSE
AMEMBASSY SAN SALVADOR
AMEMBASSY TEGUCIGALPA

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E. O. 11652: N/A

TAGS: ETRD, EAGR, NU

SUBJECT: COFFEE: NICARAGUAN PRODUCERS PROPOSE COFFEE
EXPORT FINANCING SCHEME TO GON

REF: SAN SALVADOR 0703

SUMMARY: EXPOSURE TO NEGATIVE VIEWS ON NICARAGUAN COFFEE
POLICY AT FEBRUARY WORLD COFFEE PRODUCERS MEETING IN
EL SALVADOR AND LOSSES BEING SUFFERED AT PRESENT WORLD MARKET
PRICES HAVE SOFTENED ADAMANT POSITION AGAINST ANY KIND OF
RETENTION SCHEME BY NICARAGUAN COFFEE PRODUCERS. THE
COFFEE PRODUCERS COOPERATIVE HAS NOW PROPOSED TO GON
ACCEPTANCE OF U.S. \$40 MILLION COMMERCIAL LOAN FROM FRENCH
SOURCES TO PURCHASE COFFEE FOR RESALE IN MORE ORDERLY
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MARKETING SYSTEM. END SUMMARY.

1. PRESIDENT OF SOCIEDAD COOPERATIVA DE CAFETERAS, FABIO GALLO, TOLD EMBOFF THAT NICARAGUAN PRODUCERS WERE TAKEN ABACK BY ATTITUDE OF OTHER PRODUCERS ON NICARAGUAN COFFEE POLICIES. HE SAID, E.G., THAT BRAZILIANS FELT NICARAGUAN SALE OFFERES WERE DEPRESSING WORLD PRICES IN GENERAL. AGAINST PROTESTATIONS THAT NICARAGUA WAS A MARGINAL PRODUCERS AND HAD NO REAL WEIGHT IN MARKET, HE WAS TOLD THAT ANY OFFER BELOW MARKET TENDED TO SET PRICES FOR ALL OTHER TRANSACTIONS AND THAT NICARAGUAN COFFEE WAS LEADING THE DOWNWARD PRICE TREND. GALLO IS CONCERNED THAT OTHER PRODUCERS MAY CUT NICARAGUA OUT OF ANY BENEFITS UNDER ANY NEW INTERNATIONAL COFFEE AGREEMENT.

2. PRESENT SITUATION OF COFFEE PRODUCERS HERE FORCE THEM TO ACCEPT ANY PRICE OFFERED, ACCORDING TO GALLO. MOST OF THEM HAVE TO SELL TO COVER DEBTS AND INDIVIDUALLY ARE SO SMALL THAT NO ONE GROWER CAN AFFECT THE SUPPLY OFFERED.

3. THE COOPERATIVE HAS DEVELOPED ITS OWN SCHEME FOR MORE ORDERLY MARKETING. THROUGH INTERMEDIATION OF WOLFGANG OTTO SCHAEFFER OF GUATEMALA, WHOM GALLO DESCRIBED AS A REPUTABLE FINANCIAL GO-BETWEEN, AN OFFER OF A LOAN OF U.S. \$40 MILLION HAS BEEN ARRANGED WITH FRENCH SOURCES FOR TEN YEARS AT A RATE AROUND 9 TO 9 1/2 PERCENT. IT WOULD REQUIRE A GOVERNMENT GUARANTEE.

4. IF THE GON ACCEPTS THE COOPERATIVE'S PROPOSAL, FUNDS WOULD BE USED BY NATIONAL AGENCY--INFONAC, INCEI, OR NATIONAL BANK--TO PURCHASE ENTIRE COFFEE CROP PAYING IN CASH ABOUT 80 PERCENT OF WORLD PRICE WITH REMAINDER BASED ON ACTUAL PRICES RECEIVED ON WORLD MARKET. COFFEE COULD BE ORDERLY MARKETING THROUGHOUT YEAR REMOVING THE FORCED-SALE ASPECT OF PRESENT SYSTEM. IT WOULD ALSO ALLOW NICARAGUA TO PARTICIPATE IN INTERNATIONAL RETENTION SYSTEM IF THIS BECOMES PART OF A NEW INTERNATIONAL AGREEMENT.

5. PRODUCERS OPPOSITION IN PAST TO RETENTION SCHEMES HAS BEEN REQUIREMENT THAT GROWERS BEAR THE DIRECT COST AND DISCRIMINATION WHICH HAD BEEN PRACTICED WHERE SOME INFLUENTIAL GROWERS HAD BEEN ALLOWED TO SELL ENTIRE CROPS LIMITED OFFICIAL USE

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WHILE LESS-INFLUENTIAL WERE STUCK WITH DISPROPORTIONATE SHARE OF RETENTION COFFEE. IF GOVERNMENT AGENCY PURCHASED ALL COFFEE THIS INEQUITY WOULD NOT BE POSSIBLE.

6. COMMENT: SIGNIFICANCE OF PROPOSAL IS THAT CONGRUENCE OF GOVERNMENT AND GROWERS ON COFFEE POLICY HAS DIMINISHED. WE DO NOT KNOW WHETHER GON WILL BE SYMPATHETIC, ESPECIALLY TO IDEA OF GOVERNMENT GUARANTEED COMMERCIAL

BORROWING WHICH IS AN ESSENTIAL FEATURE OF PROPOSAL. WE
SEE A DISTINCTION, HOWEVER, IN FOREIGN BORROWING FOR
IMPROVING EXPORT MARKETING FROM SOME PREVIOUS FOREIGN
COMMERCIAL BORROWING FOR INTERNAL USES.
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